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UPDATES

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270 companies, major pension funds join pro-ESG 'Freedom to Invest' campaign

FinTech Global, 1st June 2023

HSBC has introduced the ESG Risk Improvers Index, which was created in partnership with Arabesque AI and utilizes data from ESG Book. This index aims to track the performance of more than 1000 global liquid stocks belonging to companies that stand to gain financially if their ESG risk metrics improve.

The improvement is assessed through the computation of an ESG Momentum Score every six months. This score is derived from the ESG scores of each constituent company, calculated by ESG Book using natural language processing and data mining from publicly available sources, including ESG-related news and data from NGOs. The Index serves as a valuable tool for transitioning away from investment practices solely focused on high ESG ratings, without considering a stock's ESG performance over time.

Demonstrating its significance, back-tested data revealed that companies focusing their investments on stocks with a strong momentum score experienced an increase in annual returns. This finding adds to the growing body of evidence indicating that companies embracing sustainable business practices also tend to see improved financial returns.

<https://fintech.global/2023/06/01/hsbc-pioneers-ai-backed-esg-index-for-sustainable-investment-boost/>

EU proposes new transparency rules for ESG ratings agencies

Reuters, 13th June 2023

The European Union has issued a draft legislation that mandates ESG ratings providers to refrain from offering consulting services to investors, selling credit ratings, and developing benchmarks. A crucial aspect of this legislation is the requirement for ratings providers to publicly disclose their methodologies.

The aim is to address any potential conflicts of interest that these agencies might have. The proposal suggests that these providers will be authorized and overseen by the European Securities and Markets Authority (ESMA), and any violations could result in fines equivalent to 10% of the company's annual turnover. For a long time, there has been a demand for regulation in this area, as the lack of transparency in methodologies has often put companies in a difficult position regarding their ratings.

However, some critics argue that by prioritizing transparency over standardization, the legislation falls short and allows companies to selectively choose their preferred ratings provider.

<https://www.reuters.com/sustainability/eu-proposes-greater-regulatory-scrutiny-esg-ratings-providers-2023-06-13/>



Big Tech ESG update: How IBM and Dell stack up

Sdx central, 24th June 2023

Environmental sustainability has become a top 10 enterprise priority for CEOs, according to Gartner research. But to some technologists, that's obvious even without the press releases. As global businesses digitally transform, IT vendors grow increasingly aware of the pressure to operate with their environmental impacts in mind.

Gartner analysts predict that by 2026, 75% of organizations will increase the amount of business they do with IT vendors that are focused on specific environmental, social and governance (ESG) goals "and will seek to replace vendors" that don't demonstrate sustainability progress. Despite the lip service given to prioritizing ESG, corporate sustainability isn't as important to top-level executives as it was a year ago, according to the results of Google Cloud's latest Sustainability Survey.

The cloud provider's research found global enterprise executives place ESG efforts as their third most important business priority. That represents a change from last year's survey, which identified ESG as executives' No. 1 organizational concern.

<https://www.sdxcentral.com/articles/news/big-tech-esg-update-how-ibm-and-dell-stack-up/2023/06/>

MSMEs to unlock new access to sustainable finance

Eco-Business, 27th June 2023

The United Nations Development Programme, the Global Legal Entity Identifier Foundation (GLEIF), and the Monetary Authority of Singapore have recently entered into a Statement of Intent (Sol) with the purpose of adopting ESG digital credentials for MSMEs worldwide. This collaborative effort marks the commencement of 'Project Savannah,' an initiative designed to empower MSMEs with a universally recognized set of Universal Trusted Credentials, facilitating faster access to financing and new market opportunities through transparent and trusted data.

At its core, this initiative will create digitally enabled sustainability credentials as part of a broader endeavor to establish universal trusted credentials for businesses. By doing so, MSMEs can unlock new avenues for finance and enhance their ability to track sustainability objectives. The significance of this partnership lies in demonstrating how technology can revolutionize the approach of MSMEs, the vital components of every economy, towards addressing climate change while simultaneously reducing reporting burdens.

Over time, initiatives like Project Greenprint are anticipated to play a pivotal role in providing verified private market and MSME data, thereby informing global efforts to develop more efficient pathways towards a low carbon future.

<https://www.eco-business.com/press-releases/msmes-to-unlock-new-access-to-sustainable-finance/>



World Bank Approves \$1.5 Billion in Financing to Support India's Low-Carbon Transition

ESG News, 30th June 2023

The World Bank's Board of Executive Directors approved \$1.5 billion in financing to accelerate India's development of low-carbon energy. The financing will help India promote low-carbon energy by scaling up renewable energy, developing green hydrogen, and stimulating climate finance for low-carbon energy investments.

India is one of the fastest-growing large economies in the world, and its energy demand is expected to grow rapidly as the economy expands. This calls for a phasing down of fossil-based energy sources in line with India's goal of achieving net-zero by 2070. The industrial sector is the main driver for future growth of energy demand and emissions, and green hydrogen can play a critical role in initially decarbonizing the hard-to-abate industrial sectors, such as fertilizer and refinery industries, and later heavy industries, including iron and steel. India has achieved impressive progress in renewable energy installed capacity and a decline in costs. Scaling up the production of renewable energy will accelerate the transition to low-carbon electricity and support the emergence and expansion of the green hydrogen sector.

The First Low-Carbon Energy Programmatic Development Policy Operation – the first in a series of two envisaged operations – will support India in developing green hydrogen. The low-carbon energy is produced by electrolysis of water powered by renewable energy. The financing required to implement India's energy transition is such that public sector funding alone will not be sufficient. Building on recent successes, this operation will help stimulate private financing and other support by addressing viability funding gaps, reducing off-taker risks, boosting grid integration of renewables, and stimulating demand for renewable energy.

<https://esgnews.com/world-bank-approves-1-5-billion-in-financing-to-support-indias-low-carbon-transition/>

Sustainable finance package

European Commission, 13th June 2023

The European Commission has put forward a new package of measures to build on and strengthen the foundations of the EU sustainable finance framework. The package shows how the EU sustainable finance agenda can support companies and the financial sector by encouraging private funding of transition projects and technologies and facilitating financial flows to sustainable investments.

The Commission has driven focus to the aim of this package by adding additional activities to the EU Taxonomy and proposing new rules for ESG rating providers, which will increase transparency on the market for sustainable investments. The package is a step forward towards ensuring that the sustainable finance framework works for companies that want to invest in their transition to sustainability. It facilitates the use of sustainable finance framework, thereby continuing to contribute effectively to the European Green Deal objectives.

https://finance.ec.europa.eu/publications/sustainable-finance-package-2023_en



Financial inclusion necessary to build resilience to climate risks in rural households

The Hindu, 2nd June 2023

A recent study conducted by the Indian School of Business (ISB) and published in Nature's Scientific Reports reveals a significant connection between the climate resilience of rural households and their access to formal financial institutions. The study was conducted in 9 semi-arid tropical Indian states, including Karnataka, Jharkhand, Odisha, Bihar, Telangana, Gujarat, Andhra Pradesh, Maharashtra, and Madhya Pradesh. Over the period of 2010 to 2014, the researchers analyzed household-level panel data from more than 1000 households, shedding light on the crucial role financial inclusion plays in mitigating the impact of climate change on these communities.

The findings of the study highlight that a majority of the households heavily relied on their own savings to cope with the loss of livelihoods caused by climate-related shocks. This reliance on easily accessible funds often leads to a lack of investment in long-term adaptation strategies with potential higher returns. The research establishes a clear link between financial inclusion and climate resilience, as households with better access to formal financial institutions demonstrated reduced dependence on immediate cash needs and were able to make investments in long-term resilience-building initiatives.

<https://www.thehindu.com/news/national/financial-inclusion-enables-rural-households-to-respond-better-to-known-climate-risks-says-isb-study/article66923321.ece>



Central Banks of emerging economies convene on climate risk

IEEFA, 9th June 2023

Officials from the Central Banks of India, Brazil, and Indonesia met at a virtual roundtable to discuss the challenges in implementing a green transition as well as regulating burgeoning climate risks. Titled “Regulators’ Perspectives on Climate Risks and Sustainable Finance in Emerging Economies”, and co-organised by Climate Bonds Initiative, ODI and auctusESG, the roundtable served as a crucial prelude to the G20 Finance Ministers and Central Bank Governors (FMCBG) meeting in July.

The lack of historical data to guide, forward-looking nature of climate risks, and the longer time horizons over which such risks materialise were highlighted. The inability to separate climate change impacts from social considerations in emerging economies was also mentioned. The need for data beyond financial metrics, prudential policies favouring greening of MSMEs, and the role of central banks in providing climate scenarios tailored for the national context were also discussed.

<https://ieefa.org/articles/empowering-emerging-economies-central-banks-take-charge-managing-climate-risks>



Australia mandates inclusion of climate change risk in its financial system

FinTech Global, 13th June 2023

The Australian government, in an updated Statement of Expectations for its Prudential Regulation Authority (APRA), has included the consideration of climate risks under its mandate. The new directive requires the regulatory authority to “promote prudent practices and transparency in relation to climate-related financial risks”. APRA is now also expected to endorse climate reporting standards amongst its regulated entities.

Last year, the government launched a consultation paper, which aimed to develop a disclosure framework for climate risk to be used by companies and financial institutions. APRA has similarly undertaken a Climate Vulnerability Assessment of the country’s five largest banks. This latest directive is thus reflective of a trend wherein the financial implications of climate change risks are gaining prominence, and the response from governments is shifting from voluntary disclosures to mandatory regulation.

<https://fintech.global/2023/06/13/climate-change-risks-to-now-be-accounted-for-in-australias-financial-system/>





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